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OFFICE OF THE SPECIAL REPRESENTATIVE
FOR TRADE NEGOTIATIONS

EXECUTIVE OFFICE OF THE PRESIDENT

WASHINGTON

20506

January 5, 1979

MEMORANDUM

TO: Secretary Blumenthal

FROM: Ambassador Michael B. Smith ¹⁶⁵

SUBJECT: Textile Agreement Subcommittee of
the Policy Review Committee on the
People's Republic of China

The textile industry has been advocating a textile restraint agreement with the People's Republic of China (PRC) for a number of years. These pressures became acute in 1976 with rapidly increasing PRC imports. In 1977, however, PRC imports declined in part for internal political reasons and in part because of an earthquake in the textile producing regions. In 1978 textile imports from the PRC have grown at a rapid rate to record levels. In addition to the significant growth in the quantity of trade the product mix of imports is also shifting toward the more sensitive apparel product categories.

In view of the rapidly increasing trade, it was agreed in August within the Government that we should begin discussions with the PRC with the objective of achieving orderly growth in imports.

Over the last five months we have met unofficially a number of times to express our concern over the growth in PRC imports and to indicate our rights under the Multifiber Arrangement. During these meetings we stressed that the present rate of growth in PRC textile imports was politically unsustainable. Recently, the PRC has agreed to meet formally in Washington, beginning January 22, for further discussions on this issue. At this meeting we will seek to negotiate a formal understanding with the PRC.

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The textile discussions at this point are as advanced as could be expected at this time: and we have, hopefully, concluded the exploratory stages of the discussions. To date this issue has been, to the extent possible, isolated from the broader US/PRC issues. It is in our own interest to keep it that way in order to achieve an expedient resolution of this matter.

We are hopeful that we can reach some understanding with the PRC during the meetings of the week of January 22, although this may be too optimistic. While Chinese officials reportedly are prepared to work out an agreement to limit the growth rate of their textile exports to us in sensitive product categories, the negotiations will nevertheless be difficult. The PRC is a relatively new exporter to our market*; in most categories its recent growth has been from a relatively low base. Because of this, the Chinese will want to minimize the number of products restrained, and/or will not want quotas to be closely related to their trade history, but rather based on their trade potential. Given the growth in imports and the sensitive political situation in the textile sector, the United States will have little flexibility along these lines. Further, a key objective for the United States, as well as the industry is the negotiation of some form of consultation mechanism, in order to prevent disruptive surges of imports in the future. This may also prove difficult to negotiate.

We will report in detail the outcome of the discussions.

* PRC however is already our 5th largest supplier

cc: Ambassador Strauss
Ambassador Wolff



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Industry and Trade
Washington, D.C. 20230

January 5, 1979

MEMORANDUM FOR: Michael Blumenthal
Secretary of the Treasury

ATTENTION: Richard Fisher

SUBJECT: Policy Review Committee Meeting on U.S.-China
Economic Relations

Attached is a paper on Business Facilitation and Licensing prepared following a meeting of my subcommittee on these subjects. The paper outlines issues and proposes action to be taken in connection with Teng's visit on January 29.

A handwritten signature in cursive script, appearing to read "Frank A. Weil", is written over the typed name.

Frank A. Weil
Assistant Secretary
for Industry and Trade

Attachment

MEMORANDUM FOR THE MEMBERS OF THE POLICY REVIEW COMMITTEE
ON U.S.-CHINA ECONOMIC RELATIONS

SUBJECT: Business Facilitation and Licensing

The Subcommittee* makes two proposals to the Policy Review Committee on this subject:

1. That a Joint Statement of some sort be issued at the conclusion of the visit dealing, at least, with business facilitation and licensing questions (see Attachment A for a model). There are six questions on business facilitation matters which need to be resolved or advanced and which could be catalogued in such a joint statement (see Attachment B for discussion of these six questions).

2. With respect to licensing, there are two problems in our economic relations with China.

A. China refuses to provide the end-user information which is provided by all other countries, including the Soviet Union.

B. It has generally refused to provide adequate visitation assurances to confirm the end-use of licensed products.

We believe we should try to resolve these problems prior to Teng's visit. If not, they should be raised during his visit. To continue to indulge a different standard for

* Representing Departments of Commerce, Treasury, and Defense,
the CIA and State
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China from that required of the Soviets and others would raise serious difficulties. (See Attachment C.)

Joint Statement on Economic and Industrial Cooperation
Between the U.S. and the PRC

President Carter and Vice Premier Teng expressed their determination to promote trade between their two countries on the basis of respect for sovereignty, independence, non-interference in domestic affairs, juridical equality, and mutual advantage. They agreed that increased trade would be beneficial to the people and the economies of both countries.

The President and Vice Premier, in order to further the development of trade between the U.S. and the PRC, approved the following guidelines:

1. The two governments will facilitate as appropriate the activities and cooperation between interested firms, companies, and economic organizations of the two countries with a view to the realization of increased sales and joint projects in the fields of industry, manufacturing, agriculture, natural resources, and other fields of mutual interest.

2. Commercial exhibitions, including major "national exhibitions," can make an important contribution to the development of trade. Both countries affirm their intent to conclude an agreement for the exchange of such exhibits.

3. With a view to broadening and supporting economic relations between the two countries, it was agreed to establish a joint U.S.-PRC Economic Commission to meet annually in Washington and Peking.

The Commission will consider questions and problems relating to business activity.

4. In order to promote the activities of the trading companies and organizations of both countries, it was agreed to facilitate the establishment of government commercial offices in both countries, as they find it useful to their objectives. It is expected that the first of these offices would be established reciprocally in Peking and Washington.

5. It was agreed to initiate other activities to promote trade and economic cooperation such as technical sales seminars and trade missions.

6. Both sides agreed to consider permitting the establishment of offices by U.S. and Chinese firms and organizations in the capitals or appropriate other cities of the two countries.

Business Facilitation and Licensing

It is recommended that the Review Committee consider a joint statement on economic and industrial cooperation between the United States of America and the People's Republic of China as a product of the Teng visit. The following material on Business Facilitation and Licensing should be included:

1. Business Facilitation

A. Commercial Exhibitions. It is important to obtain early Chinese agreement to permit the Department of Commerce to mount exhibitions in China. It would take 12-18 months to organize the first exhibition, especially if it is to be a "national" exhibition involving 100 or more U.S. companies, possibly exhibiting in two or three cities. Any exchange of exhibits, of course, presumes a prior settlement of the claims and assets problems, without which the U.S. could not receive a reciprocal PRC commercial exhibit. An Exchange of Exhibitions Agreement would at least indicate U.S. willingness to receive a Chinese exhibition, but without specifying a date.

A draft of such an agreement could be given to the Chinese during the Teng visit and signed during Secretary Kreps' visit to the PRC.

B. Joint Commercial Commission. Government-to government commissions have proven to be of some value for discussing and resolving trade-related problems with the Soviet Union, Poland and Romania among the communist countries. These commissions are not universally supported within the Administration and their value clearly has varied from country to country. However, a commission can serve as a useful interim device for promoting trade in the absence of a trade agreement and, more importantly, once the trade agreement has been signed, it is a useful annual opportunity to review trade problems at the Cabinet level.

PROS

1. The formation of a commission is a government-to-government action which can be taken immediately.
2. The commission provides a useful framework in which to discuss trade problems in the absence of a trade agreement which could take as long as a year to negotiate.

3. The commission provides a useful venue for high-level political meetings.

CONS

1. Commissions can rigidify rather than enhance economic relations.
2. A commission requires reasonably high-level, usually Cabinet level, participation in an annual meeting--a time-consuming custom, not always productive in substantive terms.

On balance, we believe the question of establishing such a commission should be raised with Teng during his visit. It should be posed to him as a desirable objective which could be negotiated out between our two governments relatively quickly so that it could be concluded during either the Blumenthal or Kreps visits in the Spring. We recommend that we seek Teng's agreement to including in a joint statement on economic relations a provision calling for establishment of such a commission.

C. Commercial Offices (Peking, Shanghai, Canton).

U.S. companies are seriously disadvantaged by the lack of facilities that in other parts of the world are considered simple necessities. These include access to typing equipment, photocopiers, projection

equipment, and telex facilities. U.S. Government commercial offices would provide such mechanical support as well as meeting rooms and a small exhibit or seminar hall. The opening of such offices in cities other than the capital cities should be raised within discussions on the opening of consulates in those cities. The latter could be used both by individual firms and for small U.S. Government trade promotion events. We should get a reading of Chinese feelings on such facilities as soon as possible so that planning can begin immediately. This should be discussed during the Teng visit and, if the Chinese are agreeable, could be included as an objective in a joint statement or an exchange of letters.

D. Conversion of the National Council on U.S.-China Trade (NCUSCT) into a Joint U.S.-PRC Council similar to that which we now have with the Soviet Union.

With the opening of U.S.-PRC diplomatic relations, the NCUSCT, a strictly U.S. private organization at this time, should be converted into a Joint Council (roughly analagous to the U.S.-U.S.S.R. Joint Trade and Economic Council) to establish closer relations between the PRC trading entities and U.S. private firms. There is now a Chinese counterpart organization but no joint body. This would enable the NCUSCT to expand its basic efforts and would be an important supplement to official bilateral governmental relations

and programs, or vice versa. The Vice Premier should be queried and, if favorable to the idea, the matter could be formally arranged between the present NCUSCT and the PRC during Secretary Kreps' visit to the PRC.

E. Other Trade Promotion Activities. We would like to begin a number of trade promotion activities in the PRC as rapidly as possible. These include such things as technical sales seminars, trade missions, and video/catalog exhibits. Information on our various programs could be presented to Teng's party and their views sought on their acceptability to the Chinese. We then could move immediately to propose to the trade authorities in Peking specific themes and times for trade promotion events.

F. Establishment of Offices by U.S. Firms in China. One of the difficulties U.S. firms encounter in doing business with the PRC is the need to conduct such business at long distance. U.S./Chinese business relations could be greatly facilitated by permitting U.S. firms with long-term interests in China to set up and staff offices in Peking or other appropriate business centers in the PRC. We need to reach early agreement with the Chinese on whether and under what conditions such offices will be permitted.

2.

EXPORT LICENSING PROBLEMS

Problems

A. End-Use Statements

Items under validated license control by the Department of Commerce have dual uses: they may be used directly or indirectly for either military or peaceful purposes.

Information on the intended end-use of U.S.-origin goods is essential to a determination that the transaction is of such a peaceful character as to warrant issuance of a license. An official U.S. government form is employed to obtain a statement of intended end-use from the end-user.

All countries but the PRC use the form and provide the information we require. To accommodate the PRC, the U.S. government has accepted as a temporary substitute a written statement from the PRC import agency to the U.S. supplier (not to the U.S. government) identifying the intended end-use and end-user. Such statements do not include all the certifications of non-diversion which we obtain from all other countries. This practice constitutes a departure from the policy of even-handed treatment of the PRC and the USSR.

B. Visitation and Reporting

The licensing of significant computer systems and occasionally other equipment is generally conditioned on satisfactory arrangements for the monitoring of the equipment and its use for a specified period of time by Western representatives of the exporter. This is intended to inhibit and detect diversions to unauthorized uses. In this connection, the United States Government requires a commitment from the consignee to provide access to the equipment and certain operating information.

Problem: The Chinese have long been reluctant to provide specific assurances of such access. Statements proffered by the PRC are generally inadequate, necessitating repeated efforts by the exporter to obtain a formulation acceptable to the United States Government.

Options for Dealing with the Problems

A. Now that recognition has occurred, explore with the PRC its willingness to conform to U.S. government requirements.

B. If the PRC continues to refuse to conform with U.S. government requirements, raise the matter during the Teng visit.

C. Continue to indulge differentiated treatment for the PRC.

We recommend options 1 and, if necessary, 2. To continue to indulge differentiated treatment would seriously undermine the export control program and could raise significant difficulties with the Soviets.

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